



GREATER
KOKSTAD
MUNICIPALITY

PROVINCE OF KWAZULU-NATAL

Greater Kokstad Local Municipality
Annual Financial Statements
for the year ended 30 June 2013

Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2013

General Information

LEGAL FORM OF ENTITY

Local Municipality

MEMBERS OF THE COUNCIL

Cllr NT Jojozi	Mayor
Cllr ZA Mhlongo	Speaker
Cllr BM Mtolo	Deputy Mayor
Cllr FA Rodgers	EXCO 01 July 2012 - 30 April 2013
Cllr PX Xelitole	Member
Cllr TM Mohlakoana	Member
Cllr LJ Sithole	Member
Cllr MM Nondabula	Member
Cllr TO Madikizela	Member
Cllr NT Mqikela	Member
Cllr NC Nyembezi	Member
Cllr JL Kotting	EXCO 01 May 2013 - 30 June 2013
Cllr V Ncukana	Member
Cllr N Mavuka	Member
Cllr P Nocanda	Member
Cllr MN Dlakavu	Member
KJ Walker	Member from 01 June 2013

GRADING OF LOCAL AUTHORITY

Level 7

MUNICIPAL MANAGER

Mr F.T Nxumalo

CHIEF FINANCE OFFICER (CFO)

Mrs N. Gqola

REGISTERED OFFICE

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Kokstad
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Auditor General South Africa (AGSA)

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Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2013

Index

The reports and statements set out below comprise the annual financial statements presented to the provincial legislature:

Index	Page
Accounting Officer's Responsibilities and Approval	3
Statement of Financial Position	4
Statement of Financial Performance	5
Statement of Changes in Net Assets	6
Cash Flow Statement	7
Statement of Comparison of Budget and Actual Amounts	8
Accounting Policies	9 - 27
Notes to the Annual Financial Statements	28 - 62

Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2013

Accounting Officer's Responsibilities and Approval

I am responsible for the preparation of these annual financial statements, which are set out on pages 4 to 62, in terms of section 126(1) of the Municipal Finance Management Act and which I have signed on behalf of the municipality. I certify that the salaries, allowances and benefits of councillors, loans made to councillors, if any, and payments made to councillors for loss of office, if any, as disclosed in note 29 of these annual financial statements are within the upper limits of the framework envisaged in section 219 of the constitution, read with the Remuneration of Public Officers Bearers Act and the Minister of Provincial and Local Government's determination in accordance with this Act.

Municipal Manager
Mr. F.T Nxumalo
30 August 2013

Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2013

Statement of Financial Position as at 30 June 2013

	note	2013	2012
ASSETS			
Current Assets			
Inventories	3	377,288	407,113
Receivables from exchange transactions	4	1,282,635	1,507,877
VAT receivable	5	1,135,928	1,285,341
Prepayments		108,023	231,069
Consumer debtors	6	18,098,423	20,556,864
Cash and cash equivalents	7	3,453,711	8,229,178
		24,456,008	32,217,442
Non-Current Assets			
Investment property	8	15,172,050	3,559,513
Property, plant and equipment	9	549,110,337	386,816,622
Intangible asset	10	39,109	199,647
Heritage assets	11	1,226,325	1,226,325
		565,547,821	391,802,107
Non-current assets held for sale and assets of disposal groups		-	(392,245)
Total Assets		590,003,829	423,627,304
LIABILITIES			
Current Liabilities			
Finance lease obligation	12	1,984,320	732,536
Payables from exchange transactions	13	48,585,776	32,573,299
Consumer deposits	14	3,776,365	3,288,446
Unspent conditional grants and receipts	15	3,242,429	5,485,762
Provisions	16	2,719,469	2,321,312
Current portion of long term borrowings	17	705,830	629,282
Bank overdraft	7	3,977,001	-
		64,991,190	45,030,637
Non-Current Liabilities			
Finance lease obligation	12	7,668,118	2,406,153
Long term Borrowings	17	2,185,152	2,890,980
Retirement benefit obligation	18	14,098,647	12,734,326
		23,951,917	18,031,459
Total Liabilities		88,943,107	63,062,096
Net Assets		501,060,722	360,565,208
Accumulated surplus		501,060,722	360,565,208

Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2013

Statement of Financial Performance

	Note	2013	2012
Revenue			
Government grants & subsidies	19	85,138,416	73,603,215
Property rates	22	67,242,328	52,045,924
Service charges	23	91,833,681	88,037,842
Public contributions and donations	24	-	9,197
Rendering of services		1,870,616	-
Rental of facilities and equipment		816,858	1,018,257
Licences and permits		3,678,763	2,890,119
Recoveries	25	299,730	218,991
Sale of Land	26	12,754	-
Interest received - investment		432,490	771,048
Property rates - penalties imposed		3,509,180	2,640,932
Fines		326,420	1,457,330
Greenest Municipality Award		100,000	-
Recovery of provision		1,558,372	-
Total revenue		256,819,608	222,692,855
Expenditure			
General expenses	27	(74,750,679)	(73,784,372)
Employee costs	28	(86,492,567)	(69,267,399)
Remuneration of councillors	29	(4,268,233)	(4,255,409)
Debts impairment	30	(13,228,124)	(1,428,415)
Depreciation and amortisation	32	(42,676,865)	(40,552,263)
Finance costs	33	(1,092,008)	(728,242)
Repairs and maintenance		(180,195)	(2,003,528)
Bulk purchases	34	(61,779,836)	(51,610,779)
Collection costs		(2,084,941)	(1,587,470)
Total expenditure		(286,553,448)	(245,217,877)
		(29,733,840)	(22,525,022)
Gain on disposal of assets and liabilities		1,908,252	22,056
Fair value adjustments	31	(810,514)	-
		1,097,738	22,056
Deficit for the year		(28,636,102)	(22,502,966)

Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2013

Statement of Changes in Net Assets

	Accumulated surplus	Total net assets
Balance at 01 July 2011	384,859,373	384,859,373
Changes in net assets		
Prior year adjustment	(1,791,203)	(1,791,203)
Net income (losses) recognised directly in net assets	(1,791,203)	(1,791,203)
Loss for the year	(22,502,966)	(22,502,966)
Total recognised income and expenses for the year	(24,294,165)	(24,294,165)
Total changes	(24,294,165)	(24,294,165)
Balance at 01 July 2012	360,565,207	360,565,207
Changes in net assets		
Correction of error	170,040,222	170,040,222
Recovery of Performance	91,689	91,689
Correction of Prior lease	62,183	62,183
Accrual unestimated in prior year	(1,062,477)	(1,062,477)
Net income (losses) recognised directly in net assets	169,131,617	169,131,617
Deficit for the period	(28,636,102)	(28,636,102)
Total recognised income and expenses for the year	140,495,515	140,495,515
Total changes	140,495,515	140,495,515
Balance at 30 June 2013	501,060,722	501,060,722

Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2013

Cash Flow Statement

	Note	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts			
Sale of goods and services		171,952,893	147,072,147
Grants		82,895,083	73,603,215
Interest income		432,490	771,048
Other receipts		1,129,342	1,246,445
		<u>256,409,808</u>	<u>222,692,855</u>
Payments			
Employee costs		(90,760,906)	(73,522,808)
Suppliers		(88,523,619)	(51,610,779)
Finance costs		(1,092,008)	(728,242)
Other payments		(44,354,029)	(56,360,578)
		<u>(224,730,562)</u>	<u>(182,222,407)</u>
Undefined difference compared to the cash generated from operations note		(1,289,084)	-
Net cash flows from operating activities	35	<u>30,390,162</u>	<u>40,470,448</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment	9	(47,192,872)	(67,202,329)
Proceeds from sale of property, plant and equipment	9	1,908,252	28,830,962
Net cash flows from investing activities		<u>(45,284,620)</u>	<u>(38,371,367)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Movement in long term borrowings		(629,281)	(558,036)
Finance lease movement		6,513,749	1,843,435
Net cash flows from financing activities		<u>5,884,468</u>	<u>1,285,399</u>
Net increase/(decrease) in cash and cash equivalents		(9,009,990)	3,384,480
Cash and cash equivalents at the beginning of the year		8,229,178	4,844,697
Cash and cash equivalents at the end of the year	7	<u>(780,812)</u>	<u>8,229,178</u>

Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2013

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual
Statement of Financial Performance					
Revenue					
Revenue from exchange transactions					
Service charges	103,803,000	(9,121,000)	94,682,000	91,833,681	(2,848,319)
Rendering of services	-	-	-	1,870,616	1,870,616
Rental of facilities and equipment	2,027,000	(1,119,000)	908,000	816,858	(91,142)
Licences and permits	2,968,000	(600,000)	2,368,000	3,678,763	1,310,763
Interest received - investment	674,000	(174,000)	500,000	432,490	(67,510)
Total revenue from exchange transactions	109,472,000	(11,014,000)	98,458,000	98,632,408	174,408
Revenue from non-exchange transactions					
Taxation revenue					
Property rates	96,286,000	4,630,000	100,916,000	67,242,328	(33,673,672)
Other revenue	17,712,000	23,200,000	40,912,000	5,480,036	(35,431,964)
Government grants & subsidies	56,930,000	10,062,000	66,992,000	85,138,416	18,146,416
Transfer revenue					
Fines	2,972,000	(1,172,000)	1,800,000	326,420	(1,473,580)
Total revenue from non-exchange transactions	173,900,000	36,720,000	210,620,000	158,187,200	(52,432,800)
Total revenue	283,372,000	25,706,000	309,078,000	256,819,608	(52,258,392)
Expenditure					
Employee costs	(84,131,000)	5,017,000	(79,114,000)	(86,492,567)	(7,378,567)
Remuneration of councillors	(4,551,000)	-	(4,551,000)	(4,268,233)	282,767
Depreciation and amortisation	(4,000,000)	(20,012,000)	(24,012,000)	(42,676,865)	(18,664,865)
Finance costs	(1,525,000)	483,000	(1,042,000)	(1,092,008)	(50,008)
Debt impairment	(4,000,000)	(11,000,000)	(15,000,000)	(13,228,124)	1,771,876
Repairs and maintenance	(6,334,000)	382,000	(5,952,000)	(180,195)	5,771,805
Bulk purchases	(56,314,000)	(5,088,000)	(61,402,000)	(61,779,836)	(377,836)
General Expenses	(63,800,000)	(16,845,000)	(80,645,000)	(76,835,620)	3,809,380
Total expenditure	(224,655,000)	(47,063,000)	(271,718,000)	(286,553,448)	(14,835,448)
Operating deficit	58,717,000	246,386,762	21,731,762	(29,733,840)	(51,465,602)
Gain on disposal of assets and liabilities	150,000	1,193,000	1,343,000	1,908,252	565,252
Deficit before taxation	58,867,000	247,579,762	306,446,762	(27,825,588)	(334,272,350)
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	58,867,000	247,579,762	306,446,762	(27,825,588)	(334,272,350)

Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2013

Accounting Policies

1. Presentation of Annual Financial Statements

The annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention unless specified otherwise.

These annual financial statements have been prepared in accordance with Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act, (Act No 56 of 2003).

The principal accounting policies adopted in the preparation of these annual financial statements are set out below.

Assets, liabilities, revenues and expenses have not been offset except when offsetting is required or permitted by a Standard of GRAP.

The accounting policies applied are consistent with those used to present the previous year's financial statements, unless explicitly stated. The details of any changes in accounting policies are explained in the relevant policy.

Presentation of currency

These annual financial statements are presented in South African Rand, which is the functional currency of the municipality.

Going concern assumption

These annual financial statements have been prepared on the assumption that the municipality will continue to operate as a going concern for at least the next 12 months.

Standards, amendments to standards and interpretations issued but not yet effective

The following GRAP standards have been issued but are not yet effective and have not been early adopted by the municipality:

GRAP 18 Segment Reporting

GRAP 20 Related Party Disclosures

GRAP 105 Transfer of Function Between Entities Under Common Control

GRAP 106 Transfer of Function Between Entities Not Under Common Control

GRAP 107 Mergers

In preparing the annual financial statements, management is required to make estimates and assumptions that impact on the municipality financial statements once implemented. Actual results in the future could differ from these estimates which may be material to the annual financial statements. Significant judgements include:

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 16 - Provisions.

Allowance for doubtful debts

On debtors an impairment loss is recognised in surplus and deficit when there is objective evidence that it is impaired. The impairment is measured as the difference between the debtors carrying amount and the present value of estimated future cash flows discounted at the effective interest rate, computed at initial recognition.

Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2013

Accounting Policies

1.1 Property, plant and equipment

1.1.1 Initial recognition

Property, plant and equipment are tangible non-current assets (Including infrastructure assets) that are held for use in the production or supply of goods and services, rental to others, or for administrative purposes, and are expected to be used during more than one year. Items of property, plant and equipment are initially recognised as assets on acquisition date and are initially recorded at cost. These assets have been revalued in line with the transitional provisions, Directive 4, and have been recorded at Depreciated Replacement Cost. The cost of items of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by the municipality. Trade discounts and rebates are deducted in arriving at the cost. The cost also includes the necessary costs of dismantling and removing the asset and restoring the site on which it is located

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Where an asset is acquired by the municipality for no or nominal consideration (i.e. a non-exchange transaction), the cost is deemed to be equal to the fair value of that asset on the date acquired.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

Major spare parts and servicing equipment qualify as property, plant and equipment when the municipality expects to use them during more than one period. Similarly, if the major spare parts and servicing equipment can be used only in connection with an item of property, plant and equipment, they are accounted for as property, plant and equipment

1.1.2 Subsequent Measurement - Cost Model

Subsequent to initial recognition, items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses. Where the municipality replaces parts of an asset, it derecognises the part of the asset being replaced and capitalises the new component. Subsequent expenditure incurred on an asset is capitalised when it increases the capacity or future economic benefits associated with the asset.

1.1.3 Depreciation and impairment

Depreciation is calculated on the depreciable amount, using the straight-line method over the estimated useful lives of the assets. Components of assets that are significant in relation to the whole asset and that have useful lives are depreciated separately.

Land is not depreciated as it is deemed to have an indefinite useful life.

Capital work in progress is not depreciable until it is transferred to the applicable property, plant and equipment category once it is ready and available for its intended use.

The residual value, the useful life of an asset and the depreciation method is reviewed annually and any changes are recognised as a change in accounting estimate in the Statement of Financial Performance.

The municipality tests for impairment where there is an indication that an asset may be impaired. An assessment of whether there is an indication of possible impairment is done at each reporting date. where the carrying amount of an item of property, plant and equipment is greater than the estimated recoverable amount (or recoverable service amount) and an impairment amount is charged to the Statement of Financial Performance.

The annual depreciation rates are based on the following estimated average asset lives.

Item	Average useful life
Buildings	80 years
Motor vehicles	5 - 7 years

Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2013

Accounting Policies

1.1 Property, plant and equipment (continued)

Infrastructure

• Roads and Paving	20 years
• Bridges	30 years
• Storm water	15 years
• Gravel	20 years
• Substation and Transformers	40 years
• Poles, Cables and Lights	15 - 25 years
• Robots	10 years

Community

• Buildings	80 years
• Recreational Facilities	5 years
• Security system	5 years
• Dams	5 - 15 years
• Libraries	15 - 20 years
• Parks and Gardens	15 years
• Cemeteries	15 - 20 years
• Community centres	5 - 20 years
• Computer equipment	3 - 5 years

Other property, plant and equipment

• Emergency equipment	5 years
• Landfill sites	15 years
• Office equipment	5 years
• Furniture and Fittings	5 years
• Bins and containers	5 years
• Plant and equipment	5 - 7 years
• Other	5 years

1.1.4 Derecognition

Items of Property, plant and equipment are derecognised when the asset is disposed of or when there is no further economic benefits or service potential expected from the use of the asset. The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying value and is recognised in the Statement of Financial Performance.

The residual value and the useful life of each asset are reviewed at the end of each reporting date. Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item shall be depreciated separately. The depreciation method in surplus or deficit unless it is in the carrying amount of another asset

The gain or loss arises from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. the gain or loss arises from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

1.2 Intangible Asset

An asset is identified as an intangible asset when it:

- is capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, assets or liability; or
- arises from contractual rights or other legal rights, regardless whether those rights are transferable or separate from the municipality or from other rights and obligations.

Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2013

Accounting Policies

1.2 Intangible Asset (continued)

Initial Recognition

An intangible asset is an identifiable non-monetary asset without physical substance. Examples include computer software, licences, and development costs. The municipality recognises an intangible asset in its Statement of Financial Position only when it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality and the cost or fair value of the asset can be measured reliably.

"Internally generated intangible assets are subject to strict recognition criteria before they are capitalised. Research expenditure is never capitalised, while development expenditure is only capitalised to the extent that:

- the municipality intends to complete the intangible asset for use or sale;
- it is technically feasible to complete the intangible asset;
- the municipality has the resources to complete the project; and
- it is probable that the municipality will receive future economic benefits or service potential;
- the municipality has the ability to measure reliably the expenditure during development."

Intangible assets are initially recognised at cost.

Where an intangible asset is acquired by the municipality for no or nominal consideration (i.e. a non-exchange transaction), the cost is deemed to be equal to the fair value of that asset on the date acquired.

Where an intangible asset is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

Subsequent measurement

Intangible assets are subsequently carried at cost less accumulated amortisation and impairments. The cost of an intangible asset is amortised over the useful life where that useful life is finite. Where the useful life is indefinite, the asset is not amortised but is subject to an annual impairment test.

Residual value of intangible assets is estimated to be zero.

Transfers

Amortisation is charged so as to write off the cost or valuation of intangible assets over their estimated useful lives using the straight line method. The annual amortisation rates are based on the following estimated average asset lives:

Computer software	3 - 5 years
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The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at each reporting date and any changes are recognised as a change in accounting estimate in the Statement of Financial Performance.

The municipality test intangible assets with finite useful lives for impairment where there is an indication that an asset may be impaired. An assessment of whether there is an indication of possible impairment is done at each reporting date. Where the carrying amount of an item of an intangible asset is greater than the estimated recoverable amount (or recoverable service amount), it is written down immediately to its recoverable amount (or recoverable service amount) and an impairment loss is charged to the Statement of Financial Performance.

Derecognition

Intangible assets are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset. The gain or loss arising on the disposal or retirement of an intangible asset is determined as the difference between the sales proceeds and the carrying value and is recognised in the Statement of Financial Performance.

Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2013

Accounting Policies

1.3 Heritage assets

Initial Recognition

Heritage assets are assets that have a cultural, environmental, historical, natural, scientific, technological or artistic significance and are held indefinitely for the benefit of present and future generations.

A heritage asset shall be recognised as an asset if, and only if:

- (a) it is probable that future economic benefits or service potential associated with the asset will flow to the entity, and
- (b) the cost or fair value of the asset can be measured reliably.

Initial Measurement

An asset that has met the recognition requirement criteria for heritage assets shall be measured at its cost if such an asset has been acquired through an exchange transaction.

Where a heritage asset has been acquired through a non-exchange transaction, its cost shall be measured at its fair value as at the date of acquisition.

Subsequent Measurement

Heritage assets are not depreciated based on their nature however the municipality assesses at each reporting date whether there is a need for impairment.

The class of heritage assets are carried at its cost less any accumulated impairment losses.

1.4 Investment property

Investment property includes property (land or a building, or part of a building, or both land or buildings held under a finance lease) held to earn rentals and/or for capital appreciation, rather than held to meet service delivery objectives, the production or supply of goods or services, or the sale of an asset in the ordinary course of operations.

At initial recognition, the municipality measures investment property at cost including transaction cost once it meets the definition of investment property. Investment Property is initially recognised when future economic benefits or service potential are probable and the cost or fair value can be determined reliably

The cost of self-constructed investment property is the cost at date of completion.

1.3.1 Subsequent measurement-Fair value model

Investment property is valued using the fair value model. Under the fair value model, investment property is carried at its fair value at the reporting date. Any gain or loss arising from a change in the fair value of the property is included in surplus or deficit for the period in which it arises.

1.5 Inventories

Initial recognition & measurement

Inventories comprise current assets held for sale, consumption or distribution during the ordinary course of business. Inventories are initially recognised at cost. Cost generally refers to the purchase price, plus taxes, transport costs and any other costs in bringing the inventories to their current location and condition. Where inventory is manufactured, constructed or produced, the cost includes the cost of labour, materials and overheads used during the manufacturing process.

Where inventory is acquired by the municipality for no or nominal consideration (i.e. a non-exchange transaction), the cost is deemed to be equal to the fair value of the item on the date acquired.

Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2013

Accounting Policies

1.5 Inventories (continued)

Subsequent Measurement

Inventories, consisting of consumable stores, raw materials, work-in-progress and finished goods, are valued at the lower of cost and net realisable value unless they are to be distributed at no or nominal charge, in which case they are measured at the lower of cost and current replacement cost. Redundant and slow-moving inventories are identified and written down in this way. Differences arising on the valuation of inventory are recognised in the Statement of Financial Performance in the year in which they arose. The amount of any reversal of any write-down of inventories arising from an increase in net realisable value or current replacement cost is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

Derecognition

The carrying amount of inventories is recognised as an expense in the period that the inventory was sold, distributed, written off or consumed, unless that cost qualifies for capitalisation to the cost of another asset.

Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2013

Accounting Policies

1.6 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or a residual interest of another entity.

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility.

A concessionary loan is a loan granted to or received by an entity on terms that are not market related.

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

Derecognition is the removal of a previously recognised financial asset or financial liability from an entity's statement of financial position.

A derivative is a financial instrument or other contract with all three of the following characteristics:

- Its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract (sometimes called the 'underlying').
- It requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors.
- It is settled at a future date.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, an entity shall estimate cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but shall not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate (see the Standard of GRAP on Revenue from Exchange Transactions), transaction costs, and all other premiums or discounts. There is a presumption that the cash flows and the expected life of a group of similar financial instruments can be estimated reliably. However, in those rare cases when it is not possible to reliably estimate the cash flows or the expected life of a financial instrument (or group of financial instruments), the entity shall use the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm's length transaction.

A financial asset is:

- cash;
- a residual interest of another entity; or
- a contractual right to:
 - receive cash or another financial asset from another entity; or
 - exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity.

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

A financial liability is any liability that is a contractual obligation to:

- deliver cash or another financial asset to another entity; or
- exchange financial assets or financial liabilities under conditions that are potentially unfavourable to the entity.

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2013

Accounting Policies

1.6 Financial instruments (continued)

Liquidity risk is the risk encountered by an entity in the event of difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

Loan commitment is a firm commitment to provide credit under pre-specified terms and conditions.

Loans payable are financial liabilities, other than short-term payables on normal credit terms.

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk.

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

A financial asset is past due when a counterparty has failed to make a payment when contractually due.

A residual interest is any contract that manifests an interest in the assets of an entity after deducting all of its liabilities. A residual interest includes contributions from owners, which may be shown as:

- equity instruments or similar forms of unitised capital;
- a formal designation of a transfer of resources (or a class of such transfers) by the parties to the transaction as forming part of an entity's net assets, either before the contribution occurs or at the time of the contribution; or
- a formal agreement, in relation to the contribution, establishing or increasing an existing financial interest in the net assets of an entity.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability. An incremental cost is one that would not have been incurred if the entity had not acquired, issued or disposed of the financial instrument.

Financial instruments at amortised cost are non-derivative financial assets or non-derivative financial liabilities that have fixed or determinable payments, excluding those instruments that:

- the entity designates at fair value at initial recognition; or
- are held for trading.

Financial instruments at cost are investments in residual interests that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured.

Financial instruments at fair value comprise financial assets or financial liabilities that are:

- derivatives;
- combined instruments that are designated at fair value;
- instruments held for trading. A financial instrument is held for trading if:
 - it is acquired or incurred principally for the purpose of selling or repurchasing it in the near-term; or
 - on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short term profit-taking;
 - non-derivative financial assets or financial liabilities with fixed or determinable payments that are designated at fair value at initial recognition; and
 - financial instruments that do not meet the definition of financial instruments at amortised cost or financial instruments at cost.

Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2013

Accounting Policies

1.6 Financial instruments (continued)

Classification

The entity has the following types of financial assets (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	Category
Trade and other receivables from exchange transactions	Financial asset measured at amortised cost
Consumer debtors	Financial asset measured at amortised cost
Vat receivables	Financial asset measured at amortised cost
Cash and cash equivalents	Financial asset measured at fair value

The entity has the following types of financial liabilities (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	Category
Long term borrowings	Financial liability measured at amortised cost
Trade and other payables from exchange transactions	Financial liability measured at amortised cost
Finance lease obligations	Financial liability measured at amortised cost
Consumer deposits	Financial liability measured at amortised cost

Initial recognition

The entity recognises a financial asset or a financial liability in its statement of financial position when the entity becomes a party to the contractual provisions of the instrument.

The entity recognises financial assets using trade date accounting.

Initial measurement of financial assets and financial liabilities

The entity measures a financial asset and financial liability initially at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

The entity measures a financial asset and financial liability initially at its fair value [if subsequently measured at fair value].

The entity first assesses whether the substance of a concessionary loan is in fact a loan. On initial recognition, the entity analyses a concessionary loan into its component parts and accounts for each component separately. The entity accounts for that part of a concessionary loan that is:

- a social benefit in accordance with the Framework for the Preparation and Presentation of Financial Statements, where it is the issuer of the loan; or
- non-exchange revenue, in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers), where it is the recipient of the loan.

Accounting Policies

1.6 Financial instruments (continued)

Subsequent measurement of financial assets and financial liabilities

The entity measures all financial assets and financial liabilities after initial recognition using the following categories:

- Financial instruments at fair value.
- Financial instruments at amortised cost.
- Financial instruments at cost.

All financial assets measured at amortised cost, or cost, are subject to an impairment review.

Fair value measurement considerations

The best evidence of fair value is quoted prices in an active market. If the market for a financial instrument is not active, the entity establishes fair value by using a valuation technique. The objective of using a valuation technique is to establish what the transaction price would have been on the measurement date in an arm's length exchange motivated by normal operating considerations. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the entity uses that technique. The chosen valuation technique makes maximum use of market inputs and relies as little as possible on entity-specific inputs. It incorporates all factors that market participants would consider in setting a price and is consistent with accepted economic methodologies for pricing financial instruments. Periodically, an municipality calibrates the valuation technique and tests it for validity using prices from any observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on any available observable market data.

The fair value of a financial liability with a demand feature (e.g. a demand deposit) is not less than the amount payable on demand, discounted from the first date that the amount could be required to be paid.

Reclassification

The entity does not reclassify a financial instrument while it is issued or held unless it is:

- combined instrument that is required to be measured at fair value; or
- an investment in a residual interest that meets the requirements for reclassification.

Where the entity cannot reliably measure the fair value of an embedded derivative that has been separated from a host contract that is a financial instrument at a subsequent reporting date, it measures the combined instrument at fair value. This requires a reclassification of the instrument from amortised cost or cost to fair value.

If fair value can no longer be measured reliably for an investment in a residual interest measured at fair value, the entity reclassifies the investment from fair value to cost. The carrying amount at the date that fair value is no longer available becomes the cost.

If a reliable measure becomes available for an investment in a residual interest for which a measure was previously not available, and the instrument would have been required to be measured at fair value, the entity reclassifies the instrument from cost to fair value.

Gains and losses

A gain or loss arising from a change in the fair value of a financial asset or financial liability measured at fair value is recognised in surplus or deficit.

For financial assets and financial liabilities measured at amortised cost or cost, a gain or loss is recognised in surplus or deficit when the financial asset or financial liability is derecognised or impaired, or through the amortisation process.

Impairment and uncollectibility of financial assets

The entity assess at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired.

Financial assets measured at amortised cost:

Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2013

Accounting Policies

1.6 Financial instruments (continued)

If there is objective evidence that an impairment loss on financial assets measured at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced directly OR through the use of an allowance account. The amount of the loss is recognised in surplus or deficit.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed directly OR by adjusting an allowance account. The reversal does not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in surplus or deficit.

Financial assets measured at cost:

If there is objective evidence that an impairment loss has been incurred on an investment in a residual interest that is not measured at fair value because its fair value cannot be measured reliably, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed.

Accounting Policies

1.6 Financial instruments (continued)

Derecognition

Financial assets

The entity derecognises financial assets using trade date accounting.

The entity derecognises a financial asset only when:

- the contractual rights to the cash flows from the financial asset expire, are settled or waived;
- the entity transfers to another party substantially all of the risks and rewards of ownership of the financial asset; or
- the entity, despite having retained some significant risks and rewards of ownership of the financial asset, has transferred control of the asset to another party and the other party has the practical ability to sell the asset in its entirety to an unrelated third party, and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer. In this case, the entity :
 - derecognise the asset; and
 - recognise separately any rights and obligations created or retained in the transfer.

The carrying amounts of the transferred asset are allocated between the rights or obligations retained and those transferred on the basis of their relative fair values at the transfer date. Newly created rights and obligations are measured at their fair values at that date. Any difference between the consideration received and the amounts recognised and derecognised is recognised in surplus or deficit in the period of the transfer.

If the entity transfers a financial asset in a transfer that qualifies for derecognition in its entirety and retains the right to service the financial asset for a fee, it recognise either a servicing asset or a servicing liability for that servicing contract. If the fee to be received is not expected to compensate the entity adequately for performing the servicing, a servicing liability for the servicing obligation is recognised at its fair value. If the fee to be received is expected to be more than adequate compensation for the servicing, a servicing asset is recognised for the servicing right at an amount determined on the basis of an allocation of the carrying amount of the larger financial asset.

If, as a result of a transfer, a financial asset is derecognised in its entirety but the transfer results in the entity obtaining a new financial asset or assuming a new financial liability, or a servicing liability, the entity recognise the new financial asset, financial liability or servicing liability at fair value.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received is recognised in surplus or deficit.

If the transferred asset is part of a larger financial asset and the part transferred qualifies for derecognition in its entirety, the previous carrying amount of the larger financial asset is allocated between the part that continues to be recognised and the part that is derecognised, based on the relative fair values of those parts, on the date of the transfer. For this purpose, a retained servicing asset is treated as a part that continues to be recognised. The difference between the carrying amount allocated to the part derecognised and the sum of the consideration received for the part derecognised is recognised in surplus or deficit.

If a transfer does not result in derecognition because the entity has retained substantially all the risks and rewards of ownership of the transferred asset, the entity continue to recognise the transferred asset in its entirety and recognise a financial liability for the consideration received. In subsequent periods, the entity recognises any revenue on the transferred asset and any expense incurred on the financial liability. Neither the asset, and the associated liability nor the revenue, and the associated expenses are offset.

Financial liabilities

The entity removes a financial liability (or a part of a financial liability) from its statement of financial position when it is extinguished — i.e. when the obligation specified in the contract is discharged, cancelled, expires or waived.

An exchange between an existing borrower and lender of debt instruments with substantially different terms is accounted for as having extinguished the original financial liability and a new financial liability is recognised. Similarly, a substantial modification of the terms of an existing financial liability or a part of it is accounted for as having extinguished the original financial liability and having recognised a new financial liability.

Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2013

Accounting Policies

1.6 Financial instruments (continued)

The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in surplus or deficit. Any liabilities that are waived, forgiven or assumed by another entity by way of a non-exchange transaction are accounted for in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers).

Presentation

Interest relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Dividends or similar distributions relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Losses and gains relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Distributions to holders of residual interests are debited by the entity directly to net assets, net of any related income tax benefit [where applicable]. Transaction costs incurred on residual interests is accounted for as a deduction from net assets, net of any related income tax benefit [where applicable].

A financial asset and a financial liability are only offset and the net amount presented in the statement of financial position when the entity currently has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

In accounting for a transfer of a financial asset that does not qualify for derecognition, the entity does not offset the transferred asset and the associated liability.

1.7 Unauthorised expenditure

Unauthorised expenditure means:

- overspending of a vote or a main division within a vote; and
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.8 Irregular expenditure

Irregular expenditure as defined in section 1 of the PFMA is expenditure other than unauthorised expenditure, incurred in contravention of or that is not in accordance with a requirement of any applicable legislation, including -

- (a) this Act; or
- (b) the State Tender Board Act, 1968 (Act No. 86 of 1968), or any regulations made in terms of the Act; or
- (c) any provincial legislation providing for procurement procedures in that provincial government.

National Treasury practice note no. 4 of 2008/2009 which was issued in terms of sections 76(1) to 76(4) of the PFMA requires the following (effective from 1 April 2008):

Irregular expenditure that was incurred and identified during the current financial and which was condoned before year end and/or before finalisation of the financial statements must also be recorded appropriately in the irregular expenditure register. In such an instance, no further action is also required with the exception of updating the note to the financial statements.

Irregular expenditure that was incurred and identified during the current financial year and for which condonement is being awaited at year end must be recorded in the irregular expenditure register. No further action is required with the exception of updating the note to the financial statements.

Where irregular expenditure was incurred in the previous financial year and is only condoned in the following financial year, the register and the disclosure note to the financial statements must be updated with the amount condoned.

Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2013

Accounting Policies

1.8 Irregular expenditure (continued)

Irregular expenditure that was incurred and identified during the current financial year and which was not condoned by the National Treasury or the relevant authority must be recorded appropriately in the irregular expenditure register. If liability for the irregular expenditure can be attributed to a person, a debt account must be created if such a person is liable in law. Immediate steps must thereafter be taken to recover the amount from the person concerned. If recovery is not possible, the accounting officer or accounting authority may write off the amount as debt impairment and disclose such in the relevant note to the financial statements. The irregular expenditure register must also be updated accordingly. If the irregular expenditure has not been condoned and no person is liable in law, the expenditure related thereto must remain against the relevant programme/expenditure item, be disclosed as such in the note to the financial statements and updated accordingly in the irregular expenditure register.

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the economic entity's supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

1.9 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.10 Provisions

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the municipality settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

A provision is used only for expenditures for which the provision was originally recognised.

Provisions are not recognised for future operating deficits.

If an entity has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 37.

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2013

Accounting Policies

1.10 Provisions (continued)

Loan commitment is a firm commitment to provide credit under pre-specified terms and conditions.

The municipality recognises a provision for financial guarantees and loan commitments when it is probable that an outflow of resources embodying economic benefits and service potential will be required to settle the obligation and a reliable estimate of the obligation can be made.

Determining whether an outflow of resources is probable in relation to financial guarantees requires judgement. Indications that an outflow of resources may be probable are:

- financial difficulty of the debtor;
- defaults or delinquencies in interest and capital repayments by the debtor;
- breaches of the terms of the debt instrument that result in it being payable earlier than the agreed term and the ability of the debtor to settle its obligation on the amended terms; and
- a decline in prevailing economic circumstances (e.g. high interest rates, inflation and unemployment) that impact on the ability of entities to repay their obligations.

Where a fee is received by the municipality for issuing a financial guarantee and/or where a fee is charged on loan commitments, it is considered in determining the best estimate of the amount required to settle the obligation at reporting date. Where a fee is charged and the municipality considers that an outflow of economic resources is probable, an municipality recognises the obligation at the higher of:

- the amount determined using in the Standard of GRAP on Provisions, Contingent Liabilities and Contingent Assets; and
- the amount of the fee initially recognised less, where appropriate, cumulative amortisation recognised in accordance with the Standard of GRAP on Revenue from Exchange Transactions.

1.11 Leases

The Municipality as lessee

Recognition

Leases are classified as finance leases where substantially all the risks and rewards associated with ownership of an asset are transferred to the municipality. Property, plant and equipment or intangible assets subject to finance lease agreements are initially recognised at the lower of the asset's fair value and the present value of the minimum lease payments. The corresponding liabilities are initially recognised at the inception of the lease and are measured as the sum of the minimum lease payment due in terms of the lease agreement, discount for the effect of interest. In discounting the lease payment, the municipality uses the interest rate that exactly discounts the lease payments and underguaranteed residual value to the fair value of the asset plus any direct costs incurred.

Measurement

Subsequent to initial recognition, the leased assets are accounted for in accordance with the stated accounting policies application to property, plant and equipment or intangibles. The lease liability is reduced by the lease payments, which are allocated between the lease finance cost and the capital repayments using the effective interest rate method. Lease finance costs are expensed when incurred. The accounting policies related to derecognition of financial instruments are applied to lease payables. The lease asset is depreciated over the shorter of the asset's useful lives or the lease term.

Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2013

Accounting Policies

1.11 Leases (continued)

The Municipality as Lessor

Recognition

Under a finance lease, the municipality recognises the lease payments to be received in terms of a lease agreement as an asset (receivable). The receivables is calculated as the sum of all the minimum lease payments to be received, plus any unguaranteed residual accruing to the municipality, discounted at the interest rate implicit in the lease. The receivable is reduced by the capital portionate basis. The accounting policies related to derecognition and impairment of financial instruments are applied to lease receivables.

Rental income from operating leases is recognised in a straight- line basis over the term of relevant lease.

Measurement.

Operating leases - lessee

Payments made under operating leases are charged to the statement of financial position on a straight line basis over the period of the lease

Derecognition

Operating leases - lessor

Assets leased to third parties under operating lease are included in investment property in the Statement of Financial Position. The assets are depreciated over their expected useful lives on a basis consistent with similar owned investment property. Rental income is recognised over the lease term.

1.12 Revenue from exchange transactions

Recognition

Revenue from exchange transactions is only recognised once all of the following criteria have been satisfied:

- a) The entity retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- b) The amount of revenue can be measured reliably; and
- c) It is probable that the economic benefits or service potential associated with the transaction will flow to the entity and the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Measurement

Revenue from exchange transactions is measured at the fair value of the consideration received or receivable taking into account the amount of any trade discounts and volume rebates allowed by the entity.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

1.13 Revenue from non-exchange transactions

Measurement

Non-exchange transactions are defined as transactions where the entity receives value from another entity without directly giving approximately equal value in exchange.

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2013

Accounting Policies

1.14 Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of qualifying assets are capitalised to the cost of that asset unless it is inappropriate to do so. The municipality ceases the capitalisation of borrowing costs when substantially all the activities to prepare the asset for its intended use or sale are complete. It is considered inappropriate to capitalise borrowing costs where the link between the funds borrowed and the capital asset acquired cannot be adequately established. Borrowing costs incurred other than on qualifying assets are recognised as an expense in surplus or deficit when incurred.

1.15 Post-employee benefits

Short-term employee benefits

The cost of short-term employee benefits, (those payable within 12 months after the service is rendered, such as paid vacation leave and sick leave, bonuses, and non-monetary benefits such as medical care), are recognised in the period in which the service is rendered and are not discounted.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs.

The expected cost of surplus sharing and bonus payments is recognised as an expense when there is a legal or constructive obligation to make such payments as a result of past performance.

Defined contribution plans

Payments to defined contribution retirement benefit plans are charged as an expense as they fall due.

Payments made to industry-managed (or state plans) retirement benefit schemes are dealt with as defined contribution plans where the entity's obligation under the schemes is equivalent to those arising in a defined contribution retirement benefit plan.

Medical Aid

For defined benefit plans the cost of providing the benefits is determined using the projected credit method.

Actuarial valuations are conducted on an annual basis by independent actuaries separately for each plan.

Consideration is given to any event that could impact the funds up to end of the reporting period where the interim valuation is performed at an earlier date.

Past service costs are recognised immediately to the extent that the benefits are already vested, and are otherwise amortised on a straight line basis over the average period until the amended benefits become vested.

To the extent that, at the beginning of the financial period, any cumulative unrecognised actuarial gain or loss exceeds ten percent of the greater of the present value of the projected benefit obligation and the fair value of the plan assets (the corridor), that portion is recognised in surplus or deficit over the expected average remaining service lives of participating employees. Actuarial gains or losses within the corridor are not recognised.

Gains or losses on the curtailment or settlement of a defined benefit plan is recognised when the entity is demonstrably committed to curtailment or settlement.

When it is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, the right to reimbursement is recognised as a separate asset. The asset is measured at fair value. In all other respects, the asset is treated in the same way as plan assets. In surplus or deficit, the expense relating to a defined benefit plan is presented as the net of the amount recognised for a reimbursement.

The amount recognised in the statement of financial position represents the present value of the defined benefit obligation as adjusted for unrecognised actuarial gains and losses and unrecognised past service costs, and reduces by the fair value of plan assets.

Any asset is limited to unrecognised actuarial losses and past service costs, plus the present value of available refunds and reduction in future contributions to the plan.

Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2013

Accounting Policies

1.16 Impairment of cash-generating assets

Cash-generating assets are those assets held by the municipality with the primary objective of generating a commercial return. When an asset is deployed in a manner consistent with that adopted by a profit-orientated entity, it generates a commercial return.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets held with the primary objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable amount of an asset or a cash-generating unit is the higher its fair value less costs to sell and its value in use.

Useful life is either:

- (a) the period of time over which an asset is expected to be used by the municipality; or
- (b) the number of production or similar units expected to be obtained from the asset by the municipality.

Criteria developed by the municipality to distinguish cash-generating assets from non-cash-generating assets are as follow:

1.17 Housing Operating Account

The surplus arising from the revaluation of property, plant and equipment is credited to a non-distributable reserve. The revaluation surplus is realised as revalued buildings are depreciated, through a transfer from the revaluation reserve to the accumulated surplus/deficit. On disposal, the net revaluation surplus is transferred to the accumulated surplus/deficit while gains or losses on disposal, based on revalued amounts, are credited or charged to the statement of financial performance.

1.18 Conditional grants and receipts

Revenue received from conditional grants, donations and funding are recognised as revenue to the extent that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. To the extent that the criteria, conditions or obligations have not been met a liability is recognised.

1.19 Value Added Taxation

The Municipality accounts for Value Added Tax on the payment basis. This means that VAT is declared to the South African Revenue Services as input VAT or output VAT only when payments are made to suppliers or payments are received for goods or services. The net output VAT on debtors where money has not been received or creditors where payment has not yet been made is disclosed separately in the Statement of Financial Position in terms of GRAP 1

1.20 Intangible asset

An asset is identified as an intangible asset when it:

- is capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, assets or liability; or
- arises from contractual rights or other legal rights, regardless whether those rights are transferable or separate from the municipality or from other rights and obligations.

Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2013

Accounting Policies

1.20 Intangible asset (continued)

Initial recognition

An intangible asset is an identifiable non-monetary asset without physical substance. Examples include computer software, licences, and development costs. The municipality recognises an intangible asset in its Statement of Financial Position only when it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality and the cost or fair value of the asset can be measured reliably.

Internally generated intangible assets are subject to strict recognition criteria before they are capitalised. Research expenditure is never capitalised, while development expenditure is only capitalised to the extent that:

- the municipality intends to complete the intangible asset for use or sale;
- it is technically feasible to complete the intangible asset;
- the municipality has the resources to complete the project; and
- it is probable that the municipality will receive future economic benefits or service potential;
- the municipality has the ability to measure reliably the expenditure during development."

Intangible assets are initially recognised at cost.

Where an intangible asset is acquired by the municipality for no or nominal consideration (i.e. a non-exchange transaction), the cost is deemed to be equal to the fair value of that asset on the date acquired.

Where an intangible asset is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

1.21 Budget information

Municipality are typically subject to budgetary limits in the form of appropriations or budget authorisations (or equivalent), which is given effect through authorising legislation, appropriation or similar.

General purpose financial reporting by municipality shall provide information on whether resources were obtained and used in accordance with the legally adopted budget.

The approved budget is prepared on a accrual basis and presented by economic classification linked to performance outcome objectives.

The approved budget covers the fiscal period from 01-Jul-12 to 30-Jun-13.

The budget for the economic entity includes all the entities approved budgets under its control.

The annual financial statements and the budget are on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period have been included in the Statement of comparison of budget and actual amounts.

Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2013

Notes to the Annual Financial Statements

	2013	2012
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2. Changes in accounting policy

The municipality adopted the exempted portion of the following International Accounting Standards for the first time during the financial year 2012/13 in order to comply with the basis of preparation of the Annual Financial Statements as disclosed in Accounting policy 1. These have been implemented retrospectively as at 30 June 2013:

- GRAP 21 - Impairment of non-cash generating Assets
- GRAP 23 - Revenue from Non exchange Transactions
- GRAP 24 - Presentation of Budget Information in Financial Statements
- GRAP 26 - Impairment of Cash-generating Assets
- GRAP 103 - Heritage Assets
- GRAP 104 - Financial Instruments

The accounting policies were changed in accordance with these new standards of GRAP and restatements was necessary for GRAP 103, Heritage Assets.

A Budget statement has been included in these financial statements to comply with GRAP 24.

The disclosure of Financial Instruments in Note was changed in accordance with GRAP 104.

None of these GRAP standards had an effect on the financial position of the municipality.

GRAP 103 - Heritage Assets

The municipality elected to prepare its Accounting Policies for Heritage Assets in terms of GRAP 103 for the financial year 2012/13. The full net assets have been recognised retrospectively in the Annual Financial Statements.

The comparative amounts have been restated.

The aggregate effect of the changes in accounting policy on the annual financial statements for the year ended 30 June 2013 is as follows:

Statement of financial position

Property, plant and equipment

Previously stated	-	388,042,947
Adjustment	-	(1,226,325)
	-	386,816,622

Heritage Assets

Adjustment	-	1,226,325
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Statement of Financial Performance

3. Inventories

Stores, materials and fuels	377,288	407,113
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4. Receivables from exchange transactions

Sundry debtors	1,282,635	1,507,877
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5. VAT receivable

VAT	1,135,928	1,285,341
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VAT is payable on the receipt basis

Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2013

Notes to the Annual Financial Statements

	2013	2012
6. Consumer debtors		
Gross balances		
Rates	13,290,137	16,919,737
Electricity	6,883,571	7,420,456
Refuse	22,396,871	22,305,800
Fire Levy	930,657	872,055
	43,501,236	47,518,048
Less: Allowance for impairment		
Rates	(7,760,857)	(121,390)
Electricity	(4,019,703)	(4,290,158)
Refuse	(13,078,790)	(21,755,817)
Fire Levy	(543,463)	(793,819)
	(25,402,813)	(26,961,184)
Net balance		
Rates	5,529,280	16,798,347
Electricity	2,863,868	3,130,298
Refuse	9,318,081	549,983
Fire Levy	387,194	78,236
	18,098,423	20,556,864
Rates		
Current (0 -30 days)	1,737,126	2,211,543
30 Days	541,402	689,262
60 Days	378,505	481,876
90 Days	324,772	413,469
+120 Days	10,308,332	13,123,586
	13,290,137	16,919,736
Electricity		
Current (0 -30 days)	2,006,897	2,163,425
30 Days	896,919	966,874
60 Days	824,134	888,413
90 Days	156,624	168,840
+120 Days	2,998,997	3,232,905
	6,883,571	7,420,457
Refuse		
Current (0 -30 days)	1,295,588	1,290,320
30 Days	868,653	865,121
60 Days	4,154,955	4,138,060
90 Days	709,937	707,050
+120 Days	15,367,738	15,305,249
	22,396,871	22,305,800
Fire Levy		
Current (0 -30 days)	52,817	45,710
30 Days	37,583	32,526
60 Days	119,419	103,350
90 Days	34,138	29,544
+120 Days	686,701	660,924
	930,657	872,054

Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2013

Notes to the Annual Financial Statements

2013 2012

6. Consumer debtors (continued)

Summary of debtors by customer classification

Consumers

Current (0 -30 days)	5,771,352	8,302,231
60 Days	5,458,065	2,767,560
90 Days	1,207,387	1,808,316
+120 Days	29,331,680	34,639,941
	41,768,484	47,518,048
Less: Allowance for impairment	(25,402,813)	(26,961,184)
	16,365,670	20,556,864

National and provincial government

30 Days	1,665,633	1,914,840
60 Days	18,948	1,493,632
90 Days	(18,084)	89,284
+120 Days	(30,087)	114,374
	1,636,410	3,612,130

Total

Current (0 -30 days)	7,436,985	5,710,998
31 - 60 days	5,477,013	2,553,783
61 - 90 days	1,189,303	5,611,699
91 - 120 days	29,397,935	1,318,903
+120 Days	-	32,322,664
	43,501,236	47,518,047
Less: Allowance for impairment	(25,402,813)	(26,961,184)
	18,098,423	20,556,863

Less: Allowance for impairment

Current (0 -30 days)	(2,686,275)	(3,235,342)
31 - 60 days	(1,284,739)	(1,475,770)
61 - 90 days	(2,803,069)	(3,178,581)
91 - 120 days	(759,165)	(743,561)
+120 Days	(17,869,565)	(18,327,931)
	(25,402,813)	(26,961,185)

Reconciliation of allowance for impairment

Balance at beginning of the year	(26,961,185)	(25,060,725)
Contributions to provision- Exchange transactions	-	(1,900,460)
Decrease in provision	1,558,372	-
	(25,402,813)	(26,961,185)

7. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	33,317	24,074
Bank balances	-	2,251,292
Call deposits	3,420,394	5,953,812
Bank overdraft	(3,977,001)	-
	(523,290)	8,229,178

Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2013

Notes to the Annual Financial Statements

	2013	2012
7. Cash and cash equivalents (continued)		
Current assets	3,453,711	8,229,178
Current liabilities	(3,977,001)	-
	(523,290)	8,229,178

The municipality had the following bank accounts

Account number	Bank statement balances		Cash book balances	
	30 June 2013	30 June 2012	30 June 2013	30 June 2012
FNB - 527 2002 4258 - Primary Account	(2,401,401)	1,909,358	(3,977,001)	2,251,292
FNB - 620 4994 7825	64,070	61,000	64,070	61,000
FNB - 622 9521 8947	5,089	-	5,089	-
FNB - 620 6810 2682	26,425	28,878	26,425	28,878
FNB - 620 8937 2868	1,131	1,990	1,131	1,990
FNB - 620 8992 7663	7,397	2,173	7,397	2,173
FNB - 621 9170 1476	14,509	1,547	14,509	1,547
FNB - 621 0368 9230	1,199,600	1,273,034	1,199,600	1,273,034
NED - 7165 013660	1,707	-	293	-
FNB - 621 9024 8221	1,755,354	1,577,986	1,755,354	1,577,986
STD - 308 6440 85	12,589	3,003,209	12,525	3,003,209
NED - 037 1650 13687	-	(106)	-	(106)
FNB - 622 9521 8947	-	2,000	-	2,000
FNB - 623 0064 1611	2,111	2,105	2,111	2,105
STD - 308648536 - 001	331,256	-	331,256	-
NED - 7165013687	8,171	-	8,171	-
Total	1,028,008	7,863,174	1,028,008	8,205,108

8. Investment property

	2013		2012	
	Cost / Valuation	Carrying value	Cost / Valuation	Carrying value
Investment property	15,172,050	-	15,172,050	3,559,513

Reconciliation of investment property - 2013

	Opening balance	Other changes, movements	Fair value adjustments	Total
Investment property	3,559,513	12,423,051	(810,514)	15,172,050

Reconciliation of investment property - 2012

	Opening balance	Total
Investment property	3,559,513	3,559,513

Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2013

Notes to the Annual Financial Statements

2013 2012

9. Property, plant and equipment

	2013			2012		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land and buildings	127,559,991	(81,457,714)	46,102,277	127,559,991	(79,542,392)	48,017,599
Motor vehicles	8,262,754	(2,765,370)	5,497,384	5,721,190	(1,349,412)	4,371,778
Infrastructure	609,097,796	(212,132,614)	396,965,182	731,167,112	(460,853,446)	270,313,666
Community	116,394,124	(82,261,230)	34,132,894	114,523,508	(79,751,598)	34,771,910
Other property, plant and equipment	25,158,453	(12,062,093)	13,096,360	19,218,044	(7,865,657)	11,352,387
Capital work in progress	53,316,240	-	53,316,240	17,989,282	-	17,989,282
Total	939,789,358	(390,679,021)	549,110,337	1,016,179,127	(629,362,505)	386,816,622

Reconciliation of property, plant and equipment - 2013

	Opening balance	Additions	Correction of error	Transfers	Depreciation	Total
Land and Buildings	48,017,599	-	-	-	(1,915,322)	46,102,277
Motor vehicles	4,371,778	2,541,564	-	-	(1,415,958)	5,497,384
Infrastructure	270,313,666	-	155,841,367	3,289,129	(32,478,980)	396,965,182
Community	34,771,910	1,870,616	-	-	(2,509,632)	34,132,894
Other property, plant and equipment	11,352,387	6,135,417	(195,008)	-	(4,196,436)	13,096,360
Capital work in progress	17,989,282	36,645,275	1,970,812	(3,289,129)	-	53,316,240
	386,816,622	47,192,872	157,617,171	-	(42,516,328)	549,110,337

Reconciliation of property, plant and equipment - 2012

	Opening balance	Additions	Disposals	Other changes or movements	Depreciation	Total
Land and Buildings	49,523,409	396,310	-	-	(1,902,120)	48,017,599
Motor vehicles	2,269,928	4,164,311	(15,950)	-	(2,046,511)	4,371,778
Infrastructure	283,513,545	17,817,931	-	-	(31,017,810)	270,313,666
Community	27,239,353	9,633,935	-	-	(2,101,378)	34,771,910
Other property, plant and equipment	7,855,403	5,903,504	(235,066)	975,195	(3,146,649)	11,352,387
Capital work in progress	17,260,834	29,286,338	(28,557,890)	-	-	17,989,282
	387,662,472	67,202,329	(28,808,906)	975,195	(40,214,468)	386,816,622

Assets subject to finance lease (Net carrying amount)

Motor vehicles	5,497,384	4,371,778
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A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

Deemed cost

Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2013

Notes to the Annual Financial Statements

2013 2012

10. Intangible asset

	2013			2012		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software	2,180,556	(2,141,447)	39,109	2,180,556	(1,980,909)	199,647

Reconciliation of intangible asset - 2013

	Opening balance	Amortisation	Total
Computer software	199,647	(160,538)	39,109

Reconciliation of intangible asset - 2012

	Opening balance	Amortisation	Total
Computer software	537,441	(337,794)	199,647

11. Heritage assets

	2013			2012		
	Cost / Valuation	Accumulated impairment losses	Carrying value	Cost / Valuation	Accumulated impairment losses	Carrying value
Heritage	1,226,325	-	1,226,325	1,226,325	-	1,226,325

Reconciliation of heritage assets 2013

	Opening balance	Total
Other (specify class)	1,226,325	1,226,325

Reconciliation of heritage assets 2012

	Opening balance	Transfers	Total
Other (specify class)	-	1,226,325	1,226,325

Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2013

Notes to the Annual Financial Statements

	2013	2012
12. Finance lease obligation		
Minimum lease payments due		
- in second to fifth year inclusive	3,108,354 9,010,232	1,063,085 2,833,561
less: future finance charges	12,118,586 (2,466,148)	3,896,646 (757,957)
Present value of minimum lease payments	9,652,438	3,138,689
Present value of minimum lease payments due		
- within one year	1,984,320	732,536
- in second to fifth year inclusive	7,668,118	2,406,153
	9,652,438	3,138,689
Non-current liabilities	7,668,118	2,406,153
Current liabilities	1,984,320	732,536
	9,652,438	3,138,689
13. Payables from exchange transactions		
Trade payables	8,107,531	4,622,789
Accrued leave pay	6,256,401	4,396,136
Other payables	30,946,814	20,304,253
Add: Debtors with credit balances	3,275,030	3,250,121
	48,585,776	32,573,299
14. Consumer deposits		
Electricity	3,776,365	3,288,446
15. Unspent conditional grants and receipts		
Unspent conditional grants and receipts comprises of:		
Horseshoe Township	1,199,600	1,273,030
Municipal Infrastructure Grant	2,546	-
IDP Community participation	85,672	-
Peoples Housing Project 12 and 13	26,425	28,878
Small Town Rehabilitation	-	2,948,646
KZN Arts and Culture	-	67,830
Housing account	1,925,086	1,167,378
Sports & Recreation	3,099	-
	3,242,428	5,485,762

Housing account:

The municipality is an implementing agent, it does not generate any proceeds from the construction of houses.

Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2013

Notes to the Annual Financial Statements

2013 2012

16. Provisions

Reconciliation of provisions - 2013

	Opening Balance	Additions	Utilised during the year	Total
Provision for performance bonus	2,321,312	1,500,665	(1,102,508)	2,719,469

Reconciliation of provisions - 2012

	Opening Balance	Utilised during the year	Total
Other provisions	1,709,927	611,385	2,321,312

17. Long term Borrowings

The following loan bears interest at 12.26% per annum, with bi-annual instalments of R520,762.45 in December and June. The loan is repayable by 31 December 2016 and the capital portion amounts to R2 890 982.

Bhekintaba Station

Current Borrowings	705,830	629,282
Non-Current Borrowings	2,185,152	2,890,980
	2,890,982	3,520,262

18. RETIREMENT BENEFITS AND LONG SERVICE AWARD

The amounts recognised in the statement of financial position are as follows:

Opening balance	(12,734,326)	(10,782,151)
Net actuarial gains or losses not recognized	(540,868)	(1,124,633)
Current service cost	(553,491)	(454,413)
Interest cost	(931,336)	(889,516)
Contributions	661,374	516,387
	(14,098,647)	(12,734,326)

Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2013

Notes to the Annual Financial Statements

	2013	2012
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18. RETIREMENT BENEFITS AND LONG SERVICE AWARD (continued)

Defined contribution plan

It is the policy of the municipality to provide retirement benefits to all its employees. A number of defined contribution provident funds, all of which are subject to the Pensions Fund Act, exist for this purpose.

The municipality is under no obligation to cover any unfunded benefits.

Long Service Awards

Opening balance	(2,492,138)	(2,103,773)
Net actuarial gains or losses not recognised	(271,093)	(255,664)
Current service cost	(239,605)	(196,336)
Interest cost	(152,604)	(155,356)
Contributions	299,730	218,991

	(2,855,710)	(2,492,138)
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Post Employment Health Care Benefits

Present value of the defined benefit obligation - Wholly unfunded	(10,242,188)	(8,678,378)
Net actuarial gains or losses not recognised	(269,775)	(868,969)
Current service cost	(313,886)	(258,077)
Interest cost	(778,732)	(734,160)
Contributions	361,644	297,396

	(11,242,937)	(10,242,188)
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Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2013

Notes to the Annual Financial Statements

2013

2012

Table 5.1: Key financial assumptions

Assumption	Value p.a.
Discount rate	8.53%
Health care cost inflation rate	7.51%
Net effective discount rate	0.94%

Table 5.2: Key demographic assumptions

Assumption	Value		
Average retirement age	63 for males; 58 for females		
Continuation of membership at retirement	100%		
Proportion assumed married at retirement	90%		
Proportion of eligible current non-member employees joining the scheme by retirement	30%		
Mortality during employment	SA 85-90		
Mortality post-retirement	PA90-1		
Withdrawal from service (sample annual rates)	Age	Females	Males
	20	24%	16%
	30	15%	10%
	40	6%	6%
	50	2%	2%
	>55	0%	0%

Table 6.1: Accrued Liability (R millions)

Category	30/06/2012	30/06/2013
<i>In-service members</i>	4.130	4.013
<i>In-service non-members</i>	0.643	0.773
Total In-service	4.773	4.786
Continuation members	5.469	6.456
All members		
Total liability	10.242	11.243
Value of assets	0.000	0.000
Unfunded liability	10.242	11.243

Table 6.2: Current-service and Interest Costs (Rands)

Current Service Costs and Interest Costs	Year ending 30/06/2013	Year ending 30/06/2014
In-service Employees		
Current-service Cost	313,900	444,000
All Eligible Individuals		
Interest Cost	778,700	941,300

Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2013

Notes to the Annual Financial Statements

2013

2012

Table 6.7 Actuarial Gains and Losses

Actuarial (Gain)/Loss for the period	269,775
Contribution to Actuarial (Gain)/Loss:	
Basis changes: increase in net discount rate	(379,063)
Contribution increases higher than assumed	260,011
Changes to membership profile different from assumed	388,827

Table 6.8 History of liabilities and assets (R millions)

Liability History	30/06/2010	30/06/2011	30/06/2012	30/06/2013
Present value of accrued liability	7.238	8.678	10.242	11.243
Fair value of plan asset	0.000	0.000	0.000	0.000
Surplus / (deficit)	(7.238)	(8.678)	(10.242)	(11.243)

Table 6.9: History of experience adjustments: Gains and losses (R millions)

Experience adjustments	Year ending 30/06/2011	Year ending 30/06/2012	Year ending 30/06/2013
Liabilities: (Gain) / loss	0.047	0.246	0.649
Assets: Gain / (loss)	0.000	0.000	0.000

Table 7.1: Sensitivity Analysis on the Accrued Liability (R Millions)

Assumption	Change	In-service	Continuation	Total	% change
Central Assumptions		4.786	6.456	11.243	
Health care inflation	1%	5.560	7.244	12.804	14%
	-1%	4.126	5.787	9.913	-12%
Post-retirement mortality	-1 yr	4.945	6.697	11.642	4%
Average retirement age	-1 yr	5.172	6.456	11.629	3%
Withdrawal Rate	-50%	5.372	6.456	11.829	5%

Table 7.2: Sensitivity Analysis on the Current-service and Interest Costs for the year ending 30/06/2013

Assumption	Change	Current-service Cost	Interest Cost	Total	% Change
Central Assumptions		313,900	778,700	1,092,600	
Health care inflation	+1%	387,400	908,600	1,296,000	19%
	-1%	256,700	673,200	929,900	-15%
Post-retirement mortality	-1 yr	324,300	807,700	1,132,000	4%
Average retirement age	-1 yr	341,200	806,200	1,147,400	5%
Withdrawal Rate	-50%	357,700	811,900	1,169,600	7%

Table 7.3: Sensitivity Analysis on the Current-service and Interest Costs for the year ending

Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2013

Notes to the Annual Financial Statements

2013

2012

30/06/2014

Assumption	Change	Current-service Cost	Interest Cost	Total	% Change
Central Assumptions		444,000	941,300	1,385,300	
Health care inflation	+1%	515,000	1,074,400	1,589,400	15%
	-1%	381,100	827,800	1,208,900	-13%
Post-retirement mortality	-1 yr	458,200	975,300	1,433,500	3%
Average retirement age	-1 yr	485,500	974,200	1,459,700	5%
Withdrawal Rate	-50%	526,900	991,300	1,518,200	10%

Table A4.2: Withdrawal rates

Age	Females	Males
20	24%	16%
25	18%	12%
30	15%	10%
35	10%	8%
40	6%	6%
45	4%	4%
50	2%	2%
> 55	0%	0%

Table A5.1 Past year and future projected Liability

	Year ending 30/06/2013	Year ending 30/06/2014	Year ending 30/06/2015
Opening Accrued Liability	10,242,188	11,242,937	12,204,358
Current-service Cost	313,886	443,981	481,851
Interest Cost	778,732	941,280	1,021,955
Contributions (benefits paid)	* (361,644)	(423,840)	(455,687)
Total Annual Expense	730,974	961,421	1,048,119
Actuarial Loss / (Gain)	269,775		
Closing Accrued Liability	11,242,937	12,204,358	13,252,477

Table A5.2 Balance Sheet Figures

Balance Sheet	Year ending 30/06/2013	Year ending 30/06/2014
Fair Value of Plan Assets	-	-
Accrued Liability	11,242,937	12,204,358
Unfunded Accrued Liability	11,242,937	12,204,358
Unrecognised Transitional Liability	-	-
Unrecognised Actuarial Gains/(Losses)	-	-
Unrecognised Past Service Cost	-	-
Miscellaneous Item	-	-
Net Liability in Balance Sheet	11,242,937	12,204,358

Table A5.3 Reconciling and Projecting the Unfunded Accrued Liability

Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2013

Notes to the Annual Financial Statements

2013

2012

Unfunded Accrued Liability	Year ending 30/06/2013	Year ending 30/06/2014
Opening Balance	10,242,188	11,242,937
Current-service Cost	313,886	443,981
Interest Cost	778,732	941,280
Expected Return on Plan Assets	-	-
Actuarial (Gain)/Loss	269,775	-
Past-service Cost	-	-
Effect of Curtailment/Settlement	-	-
Expected Employer Benefit Payments	(361,644)	(423,840)
Closing Balance	11,242,937	12,204,358
Projected Accrued Liability	10,973,162	12,204,358

Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2013

Notes to the Annual Financial Statements

	2013	2012
19. Government grants and subsidies		
Operating grants		
Equitable share	48,477,000	42,946,000
MSIG Project Consolidate	800,000	790,000
FMG	1,500,000	1,250,000
Grant Income - KZN Province	-	482,793
Sport and Recreation	146,901	703,106
IDP Grant	114,327	-
Expanded Public Works Programme	946,000	-
Municipal Excellence Award	1,000,000	-
Arts and Culture	744,830	831,861
	53,729,058	47,003,760
Capital grants		
Small Town Rehabilitation	2,948,646	3,251,354
Municipal Infrastructure Grant	19,317,454	15,927,000
Housing	9,143,258	7,421,101
	31,409,358	26,599,455
	85,138,416	73,603,215

Equitable Share

In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members.

Housing

Balance unspent at beginning of year	1,167,377	-
Current-year receipts	9,900,965	8,588,478
Conditions met - transferred to revenue	(9,143,257)	(7,421,101)
	1,925,085	1,167,377

This grant is used for upgrading informal settlement areas within the Municipality. No funds were withheld

Financial Management Grant - FMG

Current-year receipts	1,500,000	1,250,000
Conditions met - transferred to revenue	(1,500,000)	(1,250,000)
	-	-

This grant was used for implementation of MFMA, finance reforms and payment of intern's salaries. No funds were withheld by National.

Municipal Infrastructure Grant - MIG

Current-year receipts	19,320,000	15,927,000
Conditions met - transferred to revenue	(19,317,454)	(15,927,000)
	2,546	-

This grant is used for road infrastructure as part of upgrading of infrastructure projects.

Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2013

Notes to the Annual Financial Statements

	2013	2012
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19. Government grants and subsidies (continued)

Small Town Rehabilitation

Balance unspent at beginning of 9 month period	2,948,646	-
Current-year receipts	-	6,200,000
Conditions met - transferred to revenue	(2,948,646)	(3,251,354)
	-	2,948,646

This grant is used for development in town like upgrading sidewalks, parkings and storm water drainage. No funds were withheld

Peoples Housing Grant

Balance unspent at beginning of 9 month period	28,879	28,588
Current-year receipts	289	291
Conditions met - transferred to revenue	(2,743)	-
	26,425	28,879

This grant is used for upgrading informal settlement areas within the Municipality. No funds were withheld.

Horseshoe Township

Balance unspent at beginning of 9 month period	1,273,030	1,224,081
Current-year receipts	44,619	48,949
Conditions met - transferred to revenue	(118,049)	-
	1,199,600	1,273,030

This grant is used for upgrading informal settlement areas within the Municipality. No funds were withheld.

MSIG Project Consolidate

Current-year receipts	800,000	790,000
Conditions met - transferred to revenue	(800,000)	(790,000)
	-	-

This grant is used for Ward Committee Participation, by-laws and policies and systems that support local government legislations. Municipal Audit outcome and General Valuation Roll. No funds were withheld.

Arts and culture

Balance unspent at beginning of year	67,830	155,400
Current-year receipts	677,000	744,291
Conditions met - transferred to revenue	(744,830)	(831,861)
	-	67,830

This grant is used for the provision of staffing costs for Library services within the Municipality. No funds were withheld.

Sports and Recreation

Current-year receipts	150,000	675,000
Conditions met - transferred to revenue	(146,901)	(675,000)
	3,099	-

This grant is used for upgrading and maintenance of Sports field. No funds were withheld.

Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2013

Notes to the Annual Financial Statements

	2013	2012
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19. Government grants and subsidies (continued)

IDP

Current-year receipts	200,000	-
Conditions met - transferred to revenue	(114,328)	-
	85,672	-

This grant is for IDP compilation and processes.

Municipal Excellence Award

Current-year receipts	1,000,000	-
Conditions met - transferred to revenue	(1,000,000)	-
	-	-

EPWP

Current-year receipts	946,000	-
Conditions met - transferred to revenue	(946,000)	-
	-	-

20. Financial instruments disclosure

Categories of financial instruments

2013

Financial assets

	At fair value	At amortised cost	Total
Trade and other receivables from exchange transactions	-	1,282,635	1,282,635
Consumer debtors	-	18,098,423	18,098,423
Cash and cash equivalents	3,453,711	-	3,453,711
VAT receivables	-	1,135,928	1,135,928
	3,453,711	20,516,986	23,970,697

Financial liabilities

	At amortised cost	Total
Long term borrowings	2,890,982	2,890,982
Trade and other payables from exchange transactions	48,585,776	48,585,776
Finance lease obligation	9,652,438	9,652,438
Consumer deposits	3,776,365	3,776,365
	64,905,561	64,905,561

2012

Financial assets

	At fair value	At amortised cost	Total
Trade and other receivables from exchange transactions	-	1,507,877	1,507,877
Consumer debtors	-	20,556,864	20,556,864

Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2013

Notes to the Annual Financial Statements

	2013		2012
Cash and cash equivalents	8,229,178	-	8,229,178
VAT receivable	-	1,285,341	1,285,341
	8,229,178	23,350,082	31,579,260

Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2013

Notes to the Annual Financial Statements

	2013	2012
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Financial liabilities

	At fair value	At amortised cost	Total
Trade and other payables from exchange transactions	-	32,573,299	32,573,299
Bank overdraft	3,977,001	-	3,977,001
Finance lease obligation	-	3,138,689	3,138,689
Long term borrowings	-	3,520,262	3,520,262
Consumer deposits	-	3,288,446	3,288,446
	3,977,001	42,520,696	46,497,697

Financial instruments in Statement of financial performance

2013

	At amortised cost	Total
Interest income (calculated using effective interest method) for financial instruments at amortised cost	427,089	427,089
Interest expense (calculated using effective interest method) for financial instruments at amortised cost	1,092,008	1,092,008
	1,519,097	1,519,097

2012

	At amortised cost	Total
Interest income (calculated using effective interest method) for financial instruments at amortised cost	771,048	771,048
Interest expense (calculated using effective interest method) for financial instruments at amortised cost	728,242	728,242
	1,499,290	1,499,290

Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2013

Notes to the Annual Financial Statements

	2013	2012
21. Revenue		
Rendering of services	1,870,616	-
Service charges	91,833,681	88,037,842
Rental of facilities and equipment	816,858	1,018,257
Licences and permits	3,678,763	2,890,119
Interest received - investment	432,490	771,048
Greenest Municipality Award	12,754	-
Interest received - investment	432,490	-
Property rates	67,242,328	52,045,924
Property rates - penalties imposed	3,509,180	2,640,932
Government grants & subsidies	85,138,416	73,603,215
Public contributions and donations	-	9,197
Fines	326,420	1,457,330
Greenest Municipality Award	100,000	-
Recoveries	1,558,372	-
	255,293,996	222,473,864
The amount included in revenue arising from exchanges of goods or services are as follows:		
Service charges	91,833,681	88,037,842
Rendering of services	1,870,616	-
Rental of facilities and equipment	816,858	1,018,257
Licences and permits	3,678,763	2,890,119
Greenest Municipality Award	12,754	-
	98,212,672	91,946,218
The amount included in revenue arising from non-exchange transactions is as follows:		
Property rates	67,242,328	52,045,924
Property rates - penalties imposed	3,509,180	2,640,932
Interest received - investment	432,490	771,048
Government grants & subsidies	85,138,416	73,603,215
Public contributions and donations	-	9,197
Fines	326,420	1,457,330
Greenest Municipality Award	100,000	-
Recoveries	1,558,372	-
	158,307,206	130,527,646

Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2013

Notes to the Annual Financial Statements

	2013	2012
22. Property rates		
Rates received		
Residential	33,753,969	20,284,587
Commercial	18,432,947	13,267,759
Public service infrastructure	60,024	19,332
Government	30,282,601	26,489,148
Industrial	10,403,232	7,500,502
Agriculture	2,849,351	2,720,553
Sectional titles	1,724,588	1,003,089
Less: Rates rebates	(30,264,384)	(19,239,046)
	67,242,328	52,045,924
Property rates - penalties imposed	3,509,180	2,640,932
	70,751,508	54,686,856
Valuations		
Residential	2,023,617,480	1,044,462
Commercial	534,242,100	1,604,816
Public benefit organisation	140,962,500	778,227
Municipal	55,636,400	117,782
Government	2,355,331,300	-
Industrial	289,215,600	-
Agricultural	960,670,700	-
Public service infrastructure	17,707,200	-
Multipurpose	19,896,700	-
	6,397,279,980	3,545,287
23. Service charges		
Sale of electricity	79,489,314	73,141,032
Refuse removal	10,158,149	12,146,667
Other service charges	2,186,218	2,750,143
	91,833,681	88,037,842
24. Public contributions and donations		
Donations Received	-	9,197
25. Other revenue		
Recoveries	299,730	218,991
Greenest Municipality Award	12,754	-
	312,484	218,991
26. Other income		
Sale of land	12,754	-

Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2013

Notes to the Annual Financial Statements

	2013	2012
27. General expenses		
Actuarial loss - post employment benefit	540,868	1,124,633
Administration	142,053	150,223
Advertising	781,191	784,151
Auditors remuneration	1,682,353	1,524,412
Bank charges	528,727	383,361
Commission paid	198,512	455,086
Computer expenses	247,570	-
Conferences and seminars	156,419	214,320
Consulting and professional fees	3,584,321	3,309,679
Contribution to doubtful debt provision	-	1,605,459
Current service cost	553,491	454,413
Departmental consumption	1,698,069	3,463,640
Electricity network	835,441	1,705,021
Entertainment	143,293	144,914
Financial management grant	1,447,733	1,108,759
Fuel and oil	1,848,917	1,581,186
Grant expenses	10,623,954	9,425,537
Insurance	222,829	2,538,758
Interest cost on post employment benefit	931,336	889,516
Lease rentals on operating lease	3,098,940	1,465,591
Levies	14,753	11,339
Licence fees	153,531	135,088
Magazines, books and periodicals	2,194,512	1,598,989
Other expenses	28,452,944	26,138,240
Postage and courier	716,608	620,669
Printing and stationery	571,635	882,299
Security (Guarding of municipal property)	3,854,210	3,689,390
Stocks and materials	1,282,458	1,198,145
Telephone and fax	1,165,799	1,081,832
Training	1,600,170	919,900
Transport claims	69,513	79,866
Travel - local	4,597,993	3,351,117
Uniforms	351,742	781,401
Valuation costs	458,794	967,438
	74,750,679	73,784,372

Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2013

Notes to the Annual Financial Statements

	2013	2012
28. Employee related costs		
Basic	65,367,572	51,515,746
Bonus	1,175,449	1,453,564
Medical aid - company contributions	217,661	193,021
UIF	650,536	688,872
Post-employment benefits - Pension - Defined contribution plan	9,895,771	7,628,764
Travel, motor car, accommodation, subsistence and other allowances	4,491,603	4,039,345
Overtime payments	2,087,119	1,967,174
Long-service awards	1,574,637	655,942
Housing benefits and allowances	1,032,219	1,124,971
	86,492,567	69,267,399
Remuneration of Municipal Manager		
Annual Remuneration	617,311	650,518
Car and Cellphone Allowance	201,000	170,784
Performance and other Bonuses	-	168,180
Contributions to UIF, Medical and Pension Funds	125,076	78,049
Housing Allowance	106,465	101,776
Leave Payout	-	189,291
	1,049,852	1,358,598
Remuneration of Chief Finance Officer		
Annual Remuneration	495,119	361,781
Car and Cellphone allowance	266,281	149,826
Contributions to UIF, Medical and Pension Funds	78,198	65,567
Housing Allowances	21,232	30,785
Performance Bonus	-	82,387
Leave Payout	-	150,377
	860,830	840,723
Remuneration of Corporate Service Manager - Senior Manager		
Annual Remuneration	337,735	531,966
Car Allowance, Cell Allowance	58,368	172,643
Performance Bonuses and other	-	82,387
Contributions to UIF, Medical and Pension Funds	139,608	28,526
Leave Payout	22,008	206,260
Housing Allowances	20,000	-
Annual bonus	15,657	-
	593,376	1,021,782
Remuneration of Social Development Manager - Senior Manager		
Annual Remuneration	512,882	487,858
Car Allowance, Cell Allowance	177,339	166,339
Performance Bonuses	-	82,387
Contributions to UIF, Medical and Pension Funds	92,390	78,594
Housing Allowance	56,988	53,988
	839,599	869,166

Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2013

Notes to the Annual Financial Statements

2013 2012

28. Employee related costs (continued)

Remuneration of Infrastructure Planning and Development Manager - Senior Manager

Annual Remuneration	499,459	467,106
Car Allowance, Cell Allowance	175,500	161,075
Performance Bonuses	-	82,387
Contributions to UIF, Medical and Pension Funds	108,807	97,401
Housing	60,173	61,198
	843,939	869,167

29. Remuneration of councillors

Mayor	632,150	630,735
Deputy Mayor	509,495	508,358
Speaker	509,495	508,358
Executive Committee Member	189,538	264,155
Councillors	1,445,684	1,400,276
Councillors' pension and medical aid contributions	296,327	268,269
Councillors allowances	685,544	675,258
	4,268,233	4,255,409

30. Debt impairment

Debt written off	13,228,124	1,428,415
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31. Fair value adjustments

Investment property (Fair value model)	(810,514)	-
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32. Depreciation and amortisation

Property, plant and equipment	42,516,327	40,214,469
Intangible assets	160,538	337,794
	42,676,865	40,552,263

33. Finance costs

Borrowings	1,092,008	728,242
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34. Bulk purchases

Electricity	61,779,836	51,610,779
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Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2013

Notes to the Annual Financial Statements

	2013	2012
35. Cash generated from operations		
Deficit	(28,636,102)	(22,502,966)
Adjustments for:		
Depreciation and amortisation	42,676,865	40,552,263
Gain sale of assets and liabilities	(1,908,252)	(22,056)
Fair value adjustments	810,514	-
Debts written off	13,228,124	1,428,415
Movements in retirement benefit assets and liabilities	1,364,321	1,952,175
Movements in provisions	398,157	611,385
Recovery of provision for impairment	(1,558,372)	-
Prior year adjustments	-	(2,374,144)
Changes in working capital:		
Inventories	29,825	70,465
Other receivables from non-exchange transactions	225,242	2,441,245
Trade and other receivables from exchange transactions	(10,769,684)	7,234,026
Prepayments	123,046	(151,536)
Payables from exchange transactions	16,012,479	4,414,264
VAT	149,413	2,795,931
Unspent conditional grants and receipts	(2,243,333)	3,594,899
Consumer deposits	487,919	426,082
	30,390,162	40,470,448
36. Commitments		
Authorised capital expenditure		
Approved and Contracted for		
• Infrastructure	28,819,736	91,581,286
• Community	33,186,791	2,000,000
	62,006,527	93,581,286
Approved but not yet contracted for		
• Infrastructure	11,681,000	3,900,000
• Community	1,200,000	14,500,000
	12,881,000	18,400,000
Funding		
This expenditure will be financed from :		
-Government	64,022,027	-
-Own resources	10,865,500	-
	74,887,527	-
Operating leases - as lessee (expense)		
Minimum lease payments due		
- within one year	-	781,400

Operating lease payments represent rentals payable by the municipality for certain of its office properties. Leases are negotiated for an average term of seven years and rentals are fixed for an average of three years. No contingent rent is payable.

Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2013

Notes to the Annual Financial Statements

2013

2012

37. CONTINGENT LIABILITIES

The municipality is involved in the following litigation issues as stated in the table issues as stated in the table below.
The municipality's lawyers and management consider the likelihood of the action against the municipality being successful as unlikely.

Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2013

Notes to the Annual Financial Statements

2013

2012

Table 3.8: Schedule of Attorneys instructed for the Financial Year under review (2012/13)

No.	Type	Issue	Name of Attorneys	Instruction Date	Completion Date	Address
1.	CIDB Hearing	Alleged Irregular Award of Tender of Phase 3 Road Construction.	Matthew Francis Inc.	11/08/2010	Pending.	Suite 1, 2 nd Floor 221 Pietermaritz Street P.O. Box 2177 Pietermaritzburg 3200
2.	High Court Civil Litigation	Improper Township Development (Ext7) by Torgos PTY (ltd)	Matthew Francis Inc.	03/11/2010	Pending.	Suite 1, 2 nd Floor 221 Pietermaritz Street P.O. Box 2177 Pietermaritzburg 3200
3.	High Court Civil Litigation	Shayamoya Landfill Site Rehabilitation -Bid Award Objection by MKT Construction (The Unpreferred Bidder)	Matthew Francis Inc.	04 August 2011	Pending.	Suite 1, 2 nd Floor 221 Pietermaritz Street P.O. Box 2177 Pietermaritzburg 3200
4.	High Court Civil Litigation	Electricity Tariffs Dispute (Kokstad Chamber of Commerce on behalf of some businesses)	Matthew Francis Inc.	19 October 2011	Pending.	Suite 1, 2 nd Floor 221 Pietermaritz Street P.O. Box 2177 Pietermaritzburg 3200
5.	Objection Hearing	ICT Turnaround Strategy (Bid Award)	Matthew Francis Inc.	21 May 2012	25 July 2012	Suite 1, 2 nd Floor 221 Pietermaritz Street P.O. Box 2177 Pietermaritzburg 3200
6.	Planning and Development Tribunal	Rezoning and subdivision approval in dispute	Matthew Francis Inc.	21 June 2013	Pending	Suite 1, 2 nd Floor 221 Pietermaritz Street P.O. Box 2177 Pietermaritzburg 3200
6.	High Court Civil Litigation	Breach of contract- Inkunzi Civils	Elliot & Walker Attorneys	15 November 2007	Pending.	72 Hope Street Kokstad 4700
7.	Registrar of Deeds Enquiries	Acquisition of Title Deeds for Municipal owned properties	Mchunu-Mzila Inc.	26 May 2010	28 March 2013	Permanent Building 234 Church Street Suite 301, 3 rd Floor Pietermaritzburg 3201

Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2013

Notes to the Annual Financial Statements

2013

2012

8.	Magistrate Court civil litigation	Demand Sinkshow Construction cc for return of construction material or their value thereof	Ndumndum Attorneys	26 October 2012	Pending	87 Hope Street Kokstad 4700
9.	Land Claims Court civil litigation	Unlawful impounding claim against GKM & SPCA (Claim by Mathokoza Maile)	Ndumndum Attorneys	26 October 2012	Pending	87 Hope Street Kokstad 4700
10.	High Court civil litigation	Unlawful increase of NJMPF (Natal Joint Pension Municipal Fund) Members' salaries	N/A	07 June 2013	Pending	N/A
11.	Magistrate Court	Damages claim arising from a shack demolition owned by Phumelele Dada	N/A	23 May 2013	21 June 2013	N/A
12.	High Court Civil litigation	Claim for payment by Le Blanc Jasco cc in lieu of work done as per cession agreement	N/A	18 June 2013	Pending	N/A
13.	Magistrate Court civil litigation	Application for withdrawal of a Court Interdict against SA Mbhele	Mdledle Attorneys	29 January 2013	Pending	62 Hope Street Kokstad 4700
14.	Magistrate Court civil litigation	Breach of contract matter as claimed by Umbilo FET	Hamann Phohlo Attorneys	26 October 2013	Pending	49 Hope Street Kokstad 4700
15.	Planning & Development Tribunal	Dr. ER King <i>Et Al</i> dispute the approval of subdivision and rezoning	Matthew Francis Inc.	21 June 2013	Pending	Suite 1, 2 nd Floor 221 Pietermaritzburg Street P.O. Box 2177 Pietermaritzburg 3200
16.	Magistrate court civil litigation	Damages claim by Mbulelo Sibiyi in respect of	Ndumndum Attorneys	26 October 2013	Pending	87 Hope Street Kokstad 4700

Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2013

Notes to the Annual Financial Statements

2013

2012

		Motor Vehicle Accident				
17.	Magistrate court civil litigation	Damages claim by Zintathu Diko in respect of Motor Vehicle Accident	Mdledle Attorneys	08 November 2012	Pending	62 Hope Street Kokstad 4700
18.	Magistrate court civil litigation	Damages claim by Hoosen Kharvia in respect of Motor Vehicle Accident	Ndumndum Attorneys	26 October 2013	Pending	87 Hope Street Kokstad 4700
19.	Magistrate court civil litigation	Damages claim by Oaks Auto cc in respect of Motor Vehicle Accident	Mfingwana Attorneys	26 October 2013	Pending	29 Barker Street Kokstad 4700
20.	Magistrate court civil litigation	Damages claim by N Mfenqa in respect of Motor Vehicle Accident	Hamann Phohlo Attorneys	26 October 2013	Pending	49 Hope Street Kokstad 4700
21.	Magistrate court civil litigation	Damages claim by Sutherland Attorneys in respect of Motor Vehicle Accident	N/A	24 April 2013	Pending	N/A
22.	Magistrate court civil litigation	Damages claim by CIB Insurance in respect of Motor Vehicle Accident	N/A	24 April 2013	Pending	N/A
23.	Magistrate Court civil litigation	Eviction of Ramos Nagadu by Brian Harris	Mfingwana Attorneys	26 October 2013	Pending	29 Barker Street Kokstad 4700
24.	Magistrate Court civil litigation	Eviction by Ntsebezo Qangule	Mfingwana Attorneys	26 October 2013	Pending	29 Barker Street Kokstad 4700
25.	Magistrate Court civil litigation	Eviction of Mgede Letlatsa by Babalwa Mdoda	Mfingwana Attorneys	26 October 2013	Pending	29 Barker Street Kokstad 4700
26.	Magistrate Court civil litigation	Eviction of Daniel Draai by Griqua National Independent Church	Hamann Phohlo Attorneys	13 November 2012	Pending	49 Hope Street Kokstad 4700
27.	Magistrate Court civil	Eviction of Nkosiphendulo	N/A	24 April 2013	Pending	N/A

Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2013

Notes to the Annual Financial Statements

2013

2012

	litigation	Don Manqindi by Simphiwe Fumba				
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Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2013

Notes to the Annual Financial Statements

	2013	2012
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38. Related parties

There are no related parties for the current financial year.

39. Prior period errors

1. The depreciated replacement costs for roads were incorrectly calculated. The rates used by engineers were not market related rates.

2. Investment Properties were carried at incorrect values in the prior year.

3. Work in progress was incorrectly expensed in the prior period.

4. Work in progress was incorrectly capitalised to other assets in the prior period.

The correction of the error(s) results in adjustments as follows:

Statement of financial position

Property, plant and equipment - Opening balance	157,617,171	-
Investment Property - Opening balance	12,423,051	-
Opening Accumulated Surplus or Deficit	(170,040,222)	-

Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2013

Notes to the Annual Financial Statements

	2013	2012
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40. Risk management

Financial risk management

The municipality's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk.

The municipality's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the municipality's financial performance. The municipality uses derivative financial instruments to hedge certain risk exposures. Risk management is carried out by a central treasury department (entity treasury) under policies approved by the accounting officer. Municipality treasury identifies, evaluates and hedges financial risks in close co-operation with the municipality's operating units. The accounting officer provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity.

Liquidity risk

The municipality's risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities.

Credit risk

Credit risk consists mainly of cash deposits, cash equivalents, derivative financial instruments and trade debtors. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

41. Going concern

The Municipality is currently in a position of negative liquidity. The amounts due in current liabilities are R 65 565 771 and are currently reciprocated by the net cash investments of R 3 418 050.21

The Municipality will continue to operate in the foreseeable future by observing internal austerity measures and ensuring further strengthening of internal controls. The Municipality has undergone substantial expenditure in the current year with respect to projects from their own reserves that have led to negative liquidity and year end going concern issues.

In the view of management The Greater Kokstad Municipality will continue to operate as a going concern in the foreseeable future.

Strategies that have been implemented those to be implemented are as follows:

- 1.Re-assessing of the funding of the 2013/2014 capital budget and the outer two(2) Medium Term Revenue and Expenditure.
- 2.Re-assess tariff of charges for 2014/2015 Medium Term Revenue and Expenditure Framework.
- 3.Implement and maintain strict credit control procedures.
- 4.Enhancing Budgetary controls.
- 5.Strict measures on Expenditure.
6. Recovery plan being developed with remedial strategies to improve the situation.

42. Events after the reporting date

There have been no facts or circumstances of a material nature that have occurred between the balance sheet date and the date of this report that require adjustment to disclosure in the annual financial statements.

43. Unauthorised expenditure

Unauthorised expenditure	26,471,321	42,465,441
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1. Rates

Due to changes in Property market values as a result of supplementary roll that issues during the year, Property values reduced deviating from budgeted from Property values.

Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2013

Notes to the Annual Financial Statements

2013 2012

43. Unauthorised expenditure (continued)

2. Employee Costs

In the year 2011/2012 a moratorium was implemented on filling of vacancies. This was subsequently lifted in the year 2012/2013 resulting in an unanticipated increase in employee costs.

Increase in cost of employee costs was also due to unanticipated resignation of Senior managerial staff resulting in settlement packages and leave payouts thus deviating from budgeted

3. Depreciation

Due to the unbundling of assets depreciation increased.

4. Materials & Bulk Purchases

Bulk Eskom purchases, unit prices utilised to compile approved budget changed after budget as Eskom unit prices only after final approved budget.

44. Fruitless and wasteful expenditure

Eskom	72,719	-
Incorrect supplier banking(PMPZ)	-	76,949
SARS Penalty	96,520	-
SARS Interest	6,069	-
SARS Penalty (2008)	62,889	-
	238,197	76,949

45. Irregular expenditure

Opening balance	11,272,666	2,719,490
Add: Irregular expenditure - current year	3,250,715	8,553,176
Less: Amounts condoned	(11,272,666)	-
	3,250,715	11,272,666

Details of irregular expenditure – current year

Persons in service of the state

Nashua	-
Koeberg Power Works	228,897
Aphola Trading CC	20,520
Coalition Trading CC	100,000
BroadBill	33,625
Tropical Eden Trading 623 CC	73,680
My Girl Sibongile Design	4,000
Generic Touch Events (PTY) LTD	307,550
	49,640

Extension of scope of work

Delta blue	-
S. Zoko Consulting CC	440,337
FASTMOVE Electrical	337,544
	1,654,922
	3,250,715

Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2013

Notes to the Annual Financial Statements

	2013	2012
46. Additional disclosure in terms of Municipal Finance Management Act		
Contributions to organised local government		
Current year subscription / fee	623,168	309,463
Amount paid - current period	(623,168)	(309,463)
	-	-

Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2013

Notes to the Annual Financial Statements

	2013	2012
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46. Additional disclosure in terms of Municipal Finance Management Act (continued)

Audit fees

Current year fee	828,676	1,502,781
Amount paid - current period	(828,676)	(1,502,781)
	-	-

PAYE and UIF

Current year fee	8,693,913	10,116,099
Amount paid - current period	(8,693,913)	(10,116,099)
	-	-

Pension and Medical Aid Deductions

Current year fee	14,367,953	15,213,695
Amount paid - current period	(14,367,953)	(15,213,695)
	-	-

Councillors' arrear consumer accounts

30 June 2013

No Councillors had arrear accounts outstanding for more than 90 days at 30 June 2013:

30 June 2012	Outstanding less than 90 days	Outstanding more than 90 days	Total
Councillor ZA Mhlongo	-	9,967	9,967
Councillor N Mavuka	-	7,769	7,769
Councillor N T Mqikela	-	2,033	2,033
	-	19,769	19,769

47. SCM DEVIATIONS

Description

Sole Suppliers	434,191	1,252,724
Emergencies	190,346	67,459
One quote	16,950	131,164
Two quotes	-	50,000
Other deriations	120,871	1,347,997
	762,358	2,849,344

Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2013

Notes to the Annual Financial Statements

	2013	2012
48. Non Compliance With CIBD		
Details:		
Construction of Ward 4 Community Hall	2,756,814	-
Construction of Ward 8 Community Hall	2,880,945	-
	5,637,759	-

49. ELECTRICITY LOSSES

The municipality has identified electricity losses in units 891 674.12, with an estimated value of R 600 988.36.
Refer to note no.34

50. Additional Information

Greater Kokstad Municipality recieved in kind assistance from Cogta and Provincial Treaseaury